

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

March 20, 2002

The Capital Projects and Bond Oversight Committee met on Wednesday, March 20, 2002, at 9:00 AM, in Room 111 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Robert Leeper, Vice Chair; Senator Bob Jackson; and Representatives Paul Marcotte and Jim Wayne.

Guests testifying before the committee: Betty Barker, Kentucky Higher Education Student Loan Corporation; Jim Abbott and Gordon Mullis, Finance and Administration Cabinet; Bill Hintze, Governor's Office for Policy and Management; General Larry Barker, Department of Military Affairs; Warren Nash, Cabinet for Economic Development; and Roger Recktenwald, Kentucky Infrastructure Authority.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the February 20 meeting as submitted. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence and information items included in members' folders. She said in response to a request from the committee, staff met with officials from the Governor's Office for Policy and Management (GOPM) and the Finance Cabinet regarding the closing out of project accounts once projects are complete and implementing a new procedure to assure more timely closing of those accounts. The Finance Cabinet will report back to the committee in June on the specific procedures they plan to implement.

Ms. Collins then reviewed information items in members' folders regarding proposed legislation relating to the committee's jurisdiction and an update on the 2002-04 budget process. She noted that in the Executive Branch Budget bill, as passed by the House, the Department for Facilities Management's Maintenance Pool was reduced by \$7 million. She also noted that the Judicial Branch budget bill, as passed by the House, deleted the 20 new court projects that were recommended by the Chief Justice.

Ms. Collins said also included in members' folders were a staff update on various capital projects and an article from the Lexington *Herald-Leader* concerning several unauthorized projects at the University of Kentucky that were completed by the Wildcat Foundation.

Representative Wayne said private foundations, such as the Wildcat Foundation that are established to support university activities, have no oversight. He suggested that the committee receive testimony during the interim regarding this subject. Chairman Haydon said the University of Kentucky is now reviewing the projects initiated by the Wildcat Foundation, and they will be reporting to the committee concerning them next month.

Chairman Haydon said the first item of new business was a request by the University of Kentucky to purchase scientific research equipment for the Agricultural Plant Science Facility now under construction. The cost of the equipment is \$750,000, and will be funded with fund balances and reallocated operating funds. Chairman Haydon said action was not required for this project.

Chairman Haydon then introduced Ms. Betty Barker, Chief Financial Officer, Kentucky Higher Education Student Loan Corporation (KHESLC). Ms. Barker reported that KHESLC plans to consolidate three separate leases in the same building into one lease, as requested by the new owner. The annual cost of the lease as combined is \$437,316. (KRS 48.111 requires leases with an annual cost of \$200,000 or more to be specifically authorized by the General Assembly. However, an exception is made when such a lease is the result of a consolidation of leases.)

Representative Wayne asked why KHESLC is located on Linn Station Road instead of downtown Louisville. Ms. Barker said the KHESLC assumed an existing lease in 1993, and the lease has been under favorable terms and conditions since that time. She said the last time this lease was up for renewal, the agency shopped downtown as well as in the east and south ends of Louisville. At that time they opted to remain at the Linn Station location. In response to another question by Representative Wayne, she said that in locating office space, KHESLC weighed factors such as parking and traffic, but not mass transit, since the agency does not have a large number of employees using mass transit.

Representative Wayne said the location of this lease is opposite of what the Governor's Smart Growth Task Force is recommending. He said it is unfortunate that KHESLC is renewing a lease on Linn Station Road, rather than moving downtown.

Senator Leeper made a motion to approve the KHESLC lease. The motion was seconded by Senator Jackson and passed by voice vote, with Representative Wayne voting no.

Chairman Haydon introduced Mr. Jim Abbott, Director for the Division of Real Properties, to discuss lease reports submitted by the Finance and Administration Cabinet. Mr. Abbott reported lease amortizations under \$50,000 for six state agency leases: PR-1766 - Cabinet for Families and Children (Kenton County); PR-3876 - Personnel Cabinet (Franklin County); PR-4150 - Cabinet for Families and Children (Jefferson County); PR-4291 - Department of Corrections (Taylor County); PR-4435 - Workforce Development Cabinet (Warren County); and PR-4464 - Department of Housing, Buildings and Construction (Franklin County). Mr. Abbott said the costs of the improvements range from \$1,600 - \$12,000. Chairman Haydon said no action was necessary for lease modifications under \$50,000.

Mr. Abbott next reported a lease amortization exceeding \$50,000. The lease is for the Kentucky Board of Nursing (PR-3791, Jefferson County). Mr. Abbott said the purpose of the modification was to reconcile a discrepancy in the current square footage; to acquire additional square footage to accommodate the needs of the using agency; to add additional years to the lease contract; and to amortize leasehold improvements being made in the existing space. The total cost of the modifications is \$60,343 (\$49,753 @ 7.5% interest).

Representative Wayne asked if the Board of Nursing is entitled to compensation since they have paid for some time for 785 square feet of space they did not occupy. Mr. Abbott said his Department has reviewed the chronological activity for this lease. The lease was executed in 1992, and since that time, there have been nine modifications. Mr. Abbott said in looking at each of those modifications, they found that some of the errors were made by the state and some were made by the lessor. Mr. Abbott said he did not see this as a correctable error because at certain intervals in this contract, the state would have actually been owing the lessor and at other intervals the lessor would have been owing the Commonwealth. He said they have established procedures to prevent such errors in the future.

Representative Wayne asked why the Board of Nursing did not relocate to available space in the Workforce Development Cabinet's building in downtown Louisville at Sixth and Cedar. Mr. Abbott said the Revenue Cabinet has two offices in leased property in downtown Louisville, and his Department is working with the Cabinet to consolidate those offices to the state-owned building. He said they hope to be able to use the state Capital Construction and Equipment Purchase Contingency Fund for certain moving expenses if House Bill 288 is enacted. He said the Revenue Cabinet would use much of the available space in the Sixth and Cedar building, and they are also considering relocating several smaller agencies in the building as well. Mr. Abbott said

they are now doing the space planning, and the relocation may occur in mid-summer or fall.

Representative Wayne asked what efforts the Board of Nursing made to consider space downtown when they decided to expand. Mr. Abbott said the Board has a substantial investment in their current location in terms of the computer network and an associated HVAC system. Mr. Abbott said they have approximately 72 staff, and historically, it costs \$1,000 per staff person to relocate an office, plus the phone/data expense. He estimated that the cost to move an office this size would be approximately \$250,000. He said this was one of the better leased properties the state has, and he did not feel like this was an appropriate office to consider relocating.

In response to a question from Senator Leeper, Mr. Abbott said the standard amount of space assigned to each staff person is 250 square feet per person. He said the Board of Nursing lease provides approximately 350 square feet per person, but there is a board room within the office, as well as a computer area, that is distorting the square footage.

Senator Leeper noted that the Board of Nursing acquired 18 new staff people while other state agencies are taking budget cuts. Mr. Abbott said the Board, during the last session, was shouldered with at least six new responsibilities including licensing of dialysis technicians and other personnel, and maintenance of a registry for home health aids.

Senator Jackson asked if there is a lot of vacant space in other state-owned buildings. Mr. Abbott said he is a member of a committee appointed by Finance Cabinet Secretary Flanery to prepare a statewide space study. He said they are currently working their way through an answer to that question. He said there is not an excessive amount of vacant space in state-owned or privately leased facilities; however, agencies' use of space changes over time, and often when an agency downsizes, they do not report it.

Senator Jackson asked if there is a list available that shows vacant space such as what exists in the Workforce Development Cabinet building. Mr. Abbott said his office was shocked that the space was sitting idle. He said the Finance Cabinet only monitors its own space - not the space of other agencies. However, they are now trying to make a concerted effort to review all space. Senator Jackson said it would be helpful to the committee to have such information. He suggested that staff monitor the Finance work group, and Mr. Abbott said staff is welcome to attend the group's meetings.

Chairman Haydon asked said the committee would like to be involved in the study if possible. He said the effort is very timely, given the revenue situation.

Senator Jackson made a motion to approve the Board of Nursing lease contingent upon the Board receiving authorization for a lease over \$200,000 in the 2002-2004 budget. The motion was seconded by Senator Leeper and passed by voice vote.

Chairman Haydon then asked Mr. Bill Hintze, Deputy State Budget Director, GOPM, to discuss the project report submitted by the Finance and Administration Cabinet. Mr. Hintze reported that the Department of Military Affairs plans to build a Directorate of Logistics Office Building at the Boone National Guard Center in Frankfort. The project scope is \$750,000 and is 100% federally funded.

Representative Wayne asked if the designs for a building project that was eventually cancelled could be used for this project. (A similar metal building, for the Division of Emergency Management, approved by the Committee in September 2000 as a federally funded unbudgeted project, was cancelled in October 2001 because of the state's budget shortfall. Approximately \$35,400 was spent on drawings and plans.) General Larry Barker, Department of Military Affairs, said the designs of the two buildings are totally different; the logistics building will be an attachment to an existing building. He also noted that 16 employees will relocate from the Maryland Avenue building to this location at Boone Center.

Senator Jackson made a motion to approve the unbudgeted project. The motion was seconded by Senator Leeper and passed by voice vote.

Mr. Hintze next discussed a federally funded \$150,000 scope increase for the Western Kentucky Veterans' Cemetery in Christian County.

In response to a question from Representative Wayne, Mr. Hintze said the state pays the upfront money for the project, and is reimbursed by the federal government. He said the federal government pays most of the construction costs, but the state is responsible for operating and maintaining the cemeteries. Representative Wayne said he had a problem with the state maintaining veterans' cemeteries. He said veterans' issues are primarily a federal government issue, not a state government issue.

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Senator Leeper and passed by voice vote with Representative Wayne voting no. The revised project scope is \$6,455,000.

Mr. Hintze then asked to address the committee concerning the 2002-04 Executive Budget. He said the House had voted to cut the Finance Cabinet's Maintenance Pool from \$10 million as recommended by the Governor to \$3 million. He reminded members that the Finance Cabinet will, effective July 1, take over maintenance responsibilities for office facilities currently maintained by the Cabinet for Families and Children. Mr. Hintze said the cut in the Maintenance Pool was done to free up money for other good

and worthy causes, but it will severely hamstring the Finance Cabinet's ability to address routine maintenance projects. He said if the enacted budget adopts the House's cut of the Maintenance Pool, the Cabinet will probably run out of money in the first year of the next biennium, and will be coming to the committee more frequently for projects to be financed from the Emergency Fund because that will be the only source of funds to address needs once the Maintenance Pool is depleted.

Representative Wayne asked how much money will it take to restore the Maintenance Pool. Mr. Hintze said the balance in the account should be \$7-\$8 million.

Representative Wayne asked if Secretary Flanery has communicated the need for an \$8 million appropriation for the Maintenance Pool to the chairs of both budget committees. Mr. Hintze said Secretary Flanery is compiling historical information, and communicating his concerns to various parties.

In response to a question for Senator Leeper, Mr. Hintze said the need, as documented in the Cabinet's capital plan, is actually more than the \$10 million recommended by the Governor.

Chairman Haydon next introduced Warren Nash, Director of the Grants Programs, Economic Development Cabinet. Mr. Nash presented an Economic Development Bond (EDB) project to benefit Rudolph's Inc, a wholesale tire distributor located in Calloway County. The Cabinet is proposing to make a grant of \$200,000 to Rudolph's, through the Calloway County Fiscal Court. Proceeds will be used to help offset the cost related to the construction of a new 90,000 square foot warehouse and distribution facility. Mr. Nash said Rudolph's will be required to maintain its current workforce of 35 full-time employees and within a two year period of the disbursement of the ED bond proceeds, they will have to create 10 additional new full-time jobs and have a total workforce of 45 full-time jobs and an annual payroll of \$2.4 million. Mr. Nash said by the fifth year of the grant, Rudolph's must create an additional 10 full time jobs and have an annual payroll of \$2.8 million. The company will be required to use Kentucky residents to fill the jobs, and if they fail to meet the requirements of the grant, they will have to pay back to the Calloway County Fiscal Court \$5,455 per job not created within the forgoing time period. Mr. Nash said the average salary for these jobs is \$40,000 annually and includes benefits.

Senator Jackson said Rudolph's is a fast growing, successful company, and with the loss of Mattel, companies like this are critically important to Western Kentucky. He said these jobs are some of the highest paying jobs in Western Kentucky. He then made a motion to approve the EDB grant for Rudolph's. The motion was seconded by Senator Leeper and passed by voice vote.

Chairman Haydon next introduced Roger Recktenwald, Executive Director, Kentucky Infrastructure Authority (KIA), to present projects proposed for KIA

assistance. Mr. Recktenwald presented three Fund A (Federally Assisted Wastewater Revolving Fund) loans: \$13,202,540 for the Mt. Sterling Water and Sewer Commission in Montgomery County; \$8,187,728 for the City of Shepherdsville in Bullitt County; \$2,240,831 for the City of Greenville in Muhlenberg County; and one Fund A1 loan in the amount of \$150,000 for the City of Marion in Crittenden County.

Senator Jackson made a motion to approve the loans. The motion was seconded by Senator Leeper and passed by voice vote.

Mr. Recktenwald next discussed two Fund E (Solid Waste Grant and Loan Fund) grant amendments: \$150,000 in additional funds for Pike County for a total of \$375,000 and \$225,000 for Bell County for a total of \$300,000. The grants are for the Certified Clean Counties Program, and will be used to clean up open dumps.

Senator Jackson made a motion to approve the Fund E grants. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Recktenwald next discussed a \$4,000,000 Fund F (Federally Assisted Drinking Water Revolving Loan Fund) loan for the Logan/Todd Regional Water Commission. Mr. Recktenwald said this project is a pact between the 12 water districts in Logan and Todd Counties. He said each water district will retain its autonomy, but they will purchase treated water from a single source. Mr. Recktenwald said water will be pumped from the Cumberland River in Tennessee to a new treatment plant under construction in Guthrie. The treated water will then be pumped to new storage reservoirs in Todd and Logan Counties and sold to the 12 water systems through new transmission lines.

Senator Leeper asked if the water rates will vary. Mr. Recktenwald said the wholesale rates the Commission will charge will be the same for each of the 12 members. The rates will be approximately \$2.90 per 1,000 gallons, but the Logan/Todd Regional Water Commission hopes to see a reduction in that rate based upon all the final project costs.

In response to questions from Senator Leeper, Mr. Recktenwald said different communities have different amounts of debts, and the water districts will carry forward any outstanding debt that they have already incurred. Collectively, all 12 communities' total assignable debt to the new treatment facility in Guthrie is \$5 million. Mr. Recktenwald said the entire group will settle on the wholesale price of water, but as individual districts they will be carrying the outstanding obligation on their existing water systems which will be reflected in each district's retail rate. Each system will have to pay off its current debt, as well as the new debt incurred for this project. He said different communities are approaching their outstanding debt different ways. They all had

anticipated that there would have to be a rate increase, but it would be more costly if each system built its own treatment facility.

Senator Jackson made a motion to approve the Fund F loan for the Logan/Todd Regional Water Commission. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Recktenwald then presented a \$447,000 Fund F loan for the North Logan Water District. The proceeds will be used to replace the existing standpipe with a new elevated storage tank.

Representative Wayne asked why the engineering costs are so high for this project. Mr. Recktenwald said there are some outstanding issues associated with this project, but he could not recall what the issues were. He said he would find out, and provide the committee with additional information later.

Senator Jackson made a motion to approve the Fund F loan for the North Logan Water District. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Recktenwald then presented two KIA information items: an assumption of its Governmental Agencies Program Loan (Fund C) to the Kentucky Turnpike Water District #2 by the Louisville Water Company; and a copy of a letter sent out to the City of Danville, a recipient of the 2020 Program, for a technical revision.

Representative Wayne complimented Mr. Recktenwald for the work KIA has done. Mr. Recktenwald said he appreciated Representative Wayne's comments and would pass them along to the KIA staff.

Don Mullis, Executive Director, Office of Financial Management, presented the agency's bond activity report. He first reported a new bond issue: State Property and Buildings Commission (SPBC) Revenue Bonds, Project. No. 73, Second Series in an amount not to exceed \$50,000,000. The proceeds will be used to refund certain outstanding SPBC bonds.

Senator Jackson made a motion to approve the SPBC bond issue. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Mullis next presented another new bond issue: Kentucky Housing Corporation (KHC) Revenue Bonds, 2002 Series A, B, C, D, & E in an amount not to exceed \$85 million. Proceeds will be used for the purchase of mortgages for first-time low and moderate income Kentucky homebuyers.

Representative Wayne made a motion to approve the KHC bond issue. The motion was seconded by Senator Jackson and passed by voice vote.

Mr. Mullis next presented a new bond issue report for the Kentucky Economic Development Finance Authority (KEDFA). KEDFA plans to issue bonds not to exceed \$2,468,750, for Baptist Homes Inc. Proceeds will be used to finance the cost of acquiring Bee Hive Homes located in Glasgow, Russellville, and Bardstown.

Mr. Mullis presented a follow-up report for SPBC Revenue and Revenue Refunding Bonds, Project No. 76 (\$66,815,000). Chairman Haydon said no action is required for follow-up reports.

Lastly, Mr. Mullis reported four new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Calloway County, Daviess County, Middlesboro Independent (Bell Co.), and Warren County.

Representative Wayne made a motion to approve the KEDFA bond issue and the school bond issues with SFCC debt service participation. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon said there was one locally-funded school bond issue submitted to the committee for review this month for Muhlenberg County. He said all disclosure information has been filed, and no further action on the bond issue is required.

Chairman Haydon said the committee's next meeting is scheduled for April 15.

Senator Jackson said the committee, over the last few years, has had oversight responsibilities as it relates to universities and the installation of dormitory sprinklers. He said he had discussed with Representative Wayne his interest in similarly considering fire safety at private institutions. He said the public institutions have a fire-safety plan in place which calls for all dormitories with four stories or more to have sprinklers installed. He suggested that staff work with the Council on Postsecondary Education (CPE) to ask the private institutions to report to the committee as to whether dormitories on their campuses are in compliance. He said he has talked to Dr. Gary Cox, President of the Association of Independent Kentucky Colleges and Universities, and he is very supportive of this idea.

Senator Jackson made a motion for the staff to work with Dr. Cox and the CPE on this issue. The motion was seconded by Representative Wayne and passed by voice vote.

With there being no further business, the meeting adjourned at 10 a.m.